



April 6, 2015

Ms. Camber Thompson
Office of State Procurement
1500 West 7th Street, Suite 300
Little Rock, AR 72201

Ms. Marty Garrity
Bureau of Legislative Research
State Capitol, Room 315
Little Rock, AR 72201

Re: Notification of Imminent Need under Act 1211 of 2009 (A.C.A. §19-11-1303)
Investment: EnCap Energy Capital Fund X, L.P.
Lone Star Real Estate Fund IV, L.P.

Dear Ms. Thompson and Ms. Garrity:

As Executive Director of Arkansas Teacher Retirement System (ATRS), my intent and plan is not to use the Imminent Need provisions of Act 1211 unless warranted. Due to fund manager changes and speed of the markets, it is occasionally needed. The investments presented at this time are considered Imminent Need due to the fact that the final closing for each of them will take place prior to the Arkansas Legislative Council (ALC) meeting scheduled for May 15, 2015.

Based on recommendations of ATRS's private equity consultant, Franklin Park and ATRS staff, on April 6, 2015 the ATRS Board of Trustees (Board), in a scheduled Board meeting, adopted Resolution 2015-15 to declare an Imminent Need exists for investment in EnCap Energy Fund X, L.P. The Board determined that all criteria were met under Act 1211 to enter into the partial equity ownership agreement for this investment.

Also adopted by the Board at the April meeting was Resolution 2015-14 declaring that an Imminent Need exists for investment in Lone Star Real Estate Fund IV, L.P. The investment was recommended by both ATRS's real asset consultant, Aon Hewitt Investment Consulting and ATRS staff. Again, the Board determined that all criteria were met under Act 1211 to enter into the partial equity ownership agreement for this investment.

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This letter has been sent in compliance with the five-day rule in Act 1211. In accordance with Act 1211, ATRS is providing copies of the aforementioned resolutions to the Office of State Procurement and the Arkansas Legislative Council. The total amount that ATRS intends to invest in these investments is up to \$60,000,000. For full and open disclosure, ATRS is attaching an Executive Summary for each of these investments to provide further details.

ATRS is hereby requesting that the investments mentioned above be reviewed by ALC at the next scheduled meeting. If any additional information is needed, please feel free to contact me on my direct line at 501-682-1820, my cell phone at 501-318-5998, or by email at: georgeh@atrs.gov

Respectfully,

A handwritten signature in black ink, appearing to read "George Hopkins", is written over the printed name.

George Hopkins
Executive Director

GH:lw

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2015-15

**Approving Investment in EnCap Energy Capital Fund X, L.P.
with Imminent Need**

WHEREAS, The Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefits of its plan participants; and

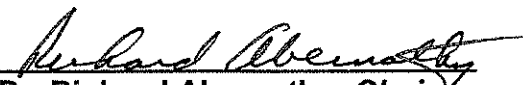
WHEREAS, The ATRS Board has reviewed the recommendation of its private equity consultant, Franklin Park Associates, LLC, along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **EnCap Energy Capital Fund X, L.P.**, a fund which will focus primarily on making control equity investments in oil and gas exploration and production companies in the United State and Canada; and

WHEREAS, The ATRS Board approves an investment of up to **\$30 million dollars (\$30,000,000.00)** in **EnCap Energy Capital Fund X, L.P.** and the Board, after its review of the timing of the period in which the general partner of **EnCap Energy Capital Fund X, L.P.** will accept new investors and the fact that the Arkansas Legislative Council is not scheduled to meet until after the April 6, 2015, closing date, has determined that there is an imminent need to immediately enter into the partial equity ownership agreement. The Board also deems it financially appropriate to enter into the partial equity ownership agreement and concludes that to forego the opportunity to promptly implement its investment directives might cost ATRS the opportunity to make the investment;

NOW, THEREFORE, BE IT RESOLVED, That the ATRS Board agrees to immediately close and subscribe the approved ATRS limited partnership investment interest in **EnCap Energy Capital Fund X, L.P.**; and

FURTHER, BE IT RESOLVED, That the ATRS staff is hereby authorized to take all necessary steps to implement this investment.

Adopted this 6th day of April, 2015.


Dr. Richard Abernathy, *Chair*
Arkansas Teacher Retirement System

Arkansas Teacher Retirement System

Private Equity Investment

Executive Summary

Investment	EnCap Energy Capital Fund X, L.P. (the "Fund")
Managing Party	EnCap Investments (the "General Partner" or "EnCap")
ATRS Legal Interest	ATRS will be a limited partner
Report Date	April 2015
Expected Closing Date	The General Partner is maximum capital commitments of \$5 billion for the Fund. ATRS is expected to close April 6, 2015.
ATRS Commitment & Reason for Entry	The investment of up to \$30 million is to help achieve the 10% target allocation to private equity. The fund was recommended by the ATRS private equity consultant.
Placement Agent	No placement agent was used to raise the Fund.
Key Terms	<p><u>Management Fee</u>: The General Partner has proposed an annual management fee of 1.5% of commitments during the investment period. Thereafter, management fees will equal 1.5% of net invested capital.</p> <p><u>Carried Interest</u>: After the limited partners receive their aggregate capital contributions on realized investments plus an 8% preferred return, the General Partner will be entitled to 20% of the Fund's profits.</p>
Justification of Investment Term & Anticipated Termination Date	<u>Term</u> : Ten years (anticipated termination in 2025) plus two one-year extensions (industry standard for this type of private equity fund due to the time required for acquiring, developing and selling underlying assets).
Investment Strategy	The Fund is being formed to primarily make control equity investments in oil and natural gas exploration and production companies in the U.S. and Canada. The Fund will provide capital to proven management teams to execute acquisition-oriented growth strategies in the oil and gas market in North America.
Management Team	<p>With offices in Houston and Dallas, EnCap has been investing in the oil and gas production sector since its inception in 1988. EnCap has managed 18 institutional funds since inception, including 9 private equity funds targeting primarily upstream energy assets.</p> <p>The Fund will be managed by a team of 26 investment professionals led by David Miller, Gary Petersen, D. Martin Phillips, Robert Zorich, Jason DeLorenzo, Murphy Markham and Douglas Swanson who are Managing Partners.</p>
Historical Performance	Since 2004, the General Partner has invested \$8.8 billion across 5 funds. Each of these funds has generated a net IRR of 19% or greater as of September 30, 2014. Historical returns are not indicative of future performance.

ARKANSAS TEACHER RETIREMENT SYSTEM
1400 West Third Street
Little Rock, Arkansas 72201

RESOLUTION
No. 2015-14

Approving Lone Star Real Estate Fund IV, L.P.
with Imminent Need

WHEREAS, The Board of Trustees (Board) of the Arkansas Teacher Retirement System (ATRS) is authorized to invest and manage trust assets for the benefits of its plan participants; and

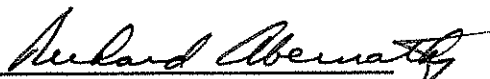
WHEREAS, The ATRS Board has reviewed the recommendation of its real assets consultant, Aon Hewitt Investment Consulting Inc., along with the recommendation of the Investment Committee and ATRS staff regarding a potential investment in **Lone Star Real Estate Fund IV, L.P.**, a closed-end opportunistic fund which pursues a strategy of investing in distressed real estate debt and equity; and

WHEREAS, The ATRS Board approves an investment of up to **\$30 million dollars (\$30,000,000.00)** in **Lone Star Real Estate Fund IV, L.P.** and the Board, after its review of the timing of the period in which the general partner of **Lone Star Real Estate Fund IV, L.P.** will accept new investors and the fact that the Arkansas Legislative Council is not scheduled to meet until after the April 14, 2015, closing date, has determined that there is an imminent need to immediately enter into the partial equity ownership agreement. The Board also deems it financially appropriate to enter into the partial equity ownership agreement and concludes that to forego the opportunity to promptly implement its investment directives might cost ATRS the opportunity to make the investment;

NOW, THEREFORE, BE IT RESOLVED, That the ATRS Board agrees to immediately close and subscribe the approved ATRS limited partnership investment interest in **Lone Star Real Estate Fund IV, L.P.**; and

FURTHER, BE IT RESOLVED, That the ATRS staff is hereby authorized to take all necessary steps to implement this investment.

Adopted this 6th day of April 2015.


Dr. Richard Abernathy, Chair
Arkansas Teacher Retirement System

**Arkansas Teacher Retirement System
Real Estate Investment
Executive Summary**

Investment	Lone Star Real Estate Fund IV, L.P.
Managing Party	Lone Star Real Estate Partners IV, L.P.
ATRS Legal Interest	ATRS will be a limited partner.
Report Date	April 2015
Expected Closing Date	April 14, 2015
ATRS Commitment & Reason for Entry	The investment of up to \$30 million is to help achieve the 15% target allocation to Real Assets. The fund was recommended by the ATRS Real Assets consultant, Aon Hewitt Investment Consultants.
Placement Agent	No placement agent was utilized.
Key Terms	<p><u>Management Fee</u>: 1.20% based on committed capital during the investment period, and .60% on invested commitments thereafter.</p> <p><u>Carried Interest</u>: 20% of profits after limited partners receive 100% of their invested capital and a 8% preferred return, 25% of profits after limited partners receive a 25% return.</p>
Justification of Investment Duration Term & Anticipated Termination Date	The strategy requires a period of time to mature and harvest the distressed and opportunistic commercial real estate debt and equity investments. The fund is a "closed end" variety with an eight year term with anticipated maturity sometime in 2023. Two one-year extensions are permissible at the manager's discretion.
Investment Strategy	Lone Star Real Estate Fund IV, L.P. will be a closed end, global, opportunistic fund. The Fund will invest in distressed and opportunistic commercial real estate debt and equity assets with a target net return to investors of 25%. The global allocation levels are expected to be; Europe 70-80%, Americas 10-20%, Japan 10-20%.
Management Team	Lone Star has 972 employees who have managed over 872,000 assets worth in excess of \$132 billion. The Principals of the Partnership have been involved in the formation and operation of several full service asset management companies in connection with their participation in the acquisition of debt and equity instruments as well as financially oriented and other operating companies. The firm is led by John Grayken (chairman) and Andre Collin (president).

**Historical
Performance**

The gross IRR across the prior Lone Star Funds for commercial real estate-related investments is 29.9% as of September 30, 2014.